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Association of Railway Executives, New York.

Railroad questions answered

New York

[1920?]

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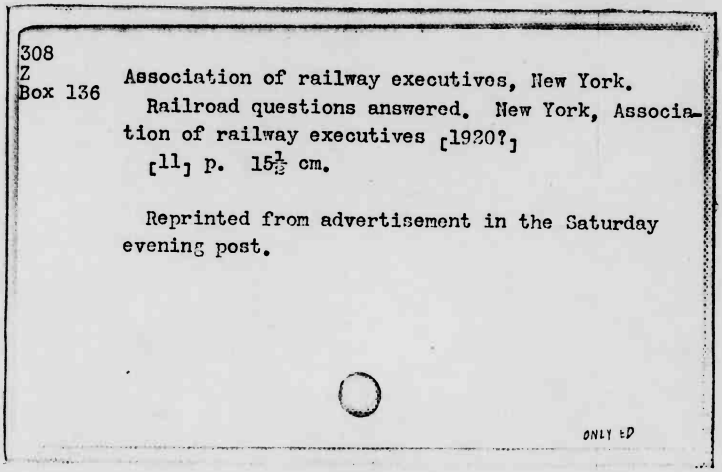

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Railroad

Questions Answered

308
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Box 136

Association *of* Railway Executives

61 Broadway New York

IT is the declared purpose of the United States Government to restore the railroads to private management on March 1, 1920.

The Association of Railway Executives represents those upon whom at that time responsibility would largely rest for the prompt and successful movement of the country's commerce.

Those constituting this Association are keenly conscious of their accountability to the public in resuming direction of the railroad service.

Their experience has made it clear that certain facts and principles are of paramount moment in assuring railroad service such as the public needs and should have.

The gist of the whole situation is that if the future conduct of the railroads is to be successful the business must be placed upon a basis which will enable the different companies to attract new capital necessary for the proper development of existing lines and the construction of new lines.

Proper service on existing lines is vital and the proper adjustment of conditions surrounding the operation of existing lines is of extreme importance, but the paramount consideration is that our system of railroad regulation should assure the continued development of the railroad facilities which will be adequate for the needs of a growing country.

Public discussion of every phase of the railroad situation is to be encouraged, for the railroad problem must be solved—and solved properly soon, if our country is to prosper.

ASSOCIATION OF RAILWAY EXECUTIVES

T. DEWITT CUYLER, *Chairman*

Oct. 13, 1923

*Railroad

Questions Answered

I

What do railroad managers consider the primary aim of a correct national railroad policy?

To secure the best possible transportation at the lowest possible cost.

What is the controlling consideration in shaping an effective railroad policy?

To make sure of being able to obtain in the future the necessary money with which to develop existing railroads and build new ones.

Why is this controlling?

Because our country, as a whole, is still undeveloped and railroads have been and will continue to be the chief instrument of development of our natural resources, opening up territory that needs only railroads to become more productive, and making in every part of the country a market for the goods produced in any other part of the country. Furthermore, in highly developed parts of the country growing railroad service demands more track facilities and better terminals. Such development means prosperity, which can be obtained in no other way.

**Reprinted from advertisement in the Saturday Evening Post.*

Why is that of importance to people not dependent upon railroad jobs?

Because unless the country continues to grow and new markets are opened up businesses cannot expand and new and better jobs will not be available. On the other hand, as new producing areas are opened up, as more products are made available in every part of the country, the standard of living of each citizen, however humble he may be, will be raised and the cost of living made continually more reasonable. Inadequate railroad facilities curtail the production of the necessities of life and thus cause an increase in the cost of living.

II

What has been the guiding principle on which American railroads have been developed?

To reduce unit costs. In other words, to build such powerful locomotives, such heavy tracks, such large freight cars, and such adequate terminals, and to encourage the carriage of freight in such great quantities, that each ton of freight could be carried at such a low price as to make it possible for farmers and for producers, especially of manufactured products, to place their goods in any market upon a basis wherein the freight charges would be relatively negligible.

Just what does that mean in its practical application?

It means that the farmer can ship his cattle, corn and wheat long distances and help to keep down the price of food in the great cities; that the fruit growers can place their products in the markets thousands of miles distant at prices which will permit a greater use; it means that fuel, lumber and raw materials for building and manufacturing can be moved long distances, and that manufactured articles can be widely distributed, thus giving the consumer access to many markets and the benefit of competition.

III

What is the average charge the railroads in the United States make to the public for carrying a ton of freight one mile?

About one cent. Two tons are carried one mile for the price of a postage stamp. That is the average charge; heavy articles, like coal and ore, are carried at lower rates because they can be handled in great bulk.

How does this cost compare with the freight rates in other parts of the world?

The average freight rate on the American railroads is lower than on the railroads of any other country in the world.

How about passenger rates?

The passenger rate in the United States is three cents per mile for travel on a first-class coach. The rate in England for first-class travel is six cents a mile. In both countries the charge for parlor or sleeping car accommodation is additional. Second-class rates in most of the European countries run about four cents a mile, and third-class rates about

three cents a mile, but the second and third-class accommodation, as it is in Europe, would be highly unsatisfactory to American travelers.

Have rates steadily declined in the United States?

Up to 1918 there had been a continuous reduction in the average freight rate charged on American railroads, for a period of thirty years. This was made possible by the continued attention to development of railroads, building new lines, opening new markets, and making possible a constantly growing amount of freight to be carried at a continually declining unit of cost. The recent increases made under governmental control have been due to conditions brought about by the war.

IV

Were there not evils attendant upon this development of American railroads?

Without question; but the fact that these evils were incidental and not inherent is shown in the fact that American railroads have had the lowest capitalization per mile of any of the great countries in the world, have paid the highest wages of any railroad system in the world, have paid the highest taxes in proportion to investment of any railroad system in the world, yet have given their service to the public at a lower price than any other great railroad system in the world.

Has the possibility of improper practices under private management of railroads been eliminated?

The possibility of dishonesty in any line of business can never be altogether eliminated, but under public regulation, as favored by railroad managements today, there is the utmost possible protection to the public against dishonesty, burdensome rates or injurious practices.

V

What, as the railroads see it, has been the chief weakness in the system of regulation as practiced up until now?

That it has been punitive for past errors rather than constructive in encouraging development of new railroads against the increasing demands of commerce.

Have not the railroads in recent years been developing fast enough to take care of the normal demands of trade?

They have not. Most of the money spent on railroads in recent years has been in building up old lines with assured traffic rather than building into new territory and opening up the undeveloped parts of the country. And even on the old lines the expenditures have not been adequate to keep pace with the growth of business.

In what way is this shown?

By one fact, for example, that it has for several years past been practically impossible for an American railroad to sell new stock in the purchase of which the investor took any chance whatever; practically for the past ten years investors in railroad securities have insisted upon obtaining bonds involving an

actual lien upon the property. That is, no one would invest money in railroads as a business for the sake of the possible profit. They could only lend money on a mortgage bond or a short-term note for the sake of the interest return. This has resulted in a steady depletion of railroad credit and a constantly increasing difficulty for the railroads to obtain new money for further development.

What has been the result?

Walker D. Hines, Director-General of the Railroads, in a public statement issued at Washington, recently, said:
"Even prior to the war, railroad facilities were not equal to the demands. During the war, the addition of new facilities was greatly restricted by scarcity of material and labor. Since the war, it has been impossible to enter upon or carry out any extensive program for enlargement of railroad capacity, because of the uncertainty as to the status of the railroads."

Would not the railroads have fared better if their managers, instead of saying so much about declining railroad credit, had assumed an optimistic attitude and given encouragement rather than discouragement to those who might invest in railroad securities?

The railroad managers have sought to present the situation as they see it; they could not have justified themselves in painting a glowing picture of promised profits if their expert knowledge and experience showed them clearly that the tendencies at work in the business were in the other direction.

What has been the most serious of those tendencies?

The constant increase in expenses, but with no power on the part of the railroads, without permission from regulating bodies, to increase their charges for service.

VI

Do not the managers of the railroads maintain that they should have unlimited earnings?

Certainly not. They believe it to be in the public interest that rates should be reasonable and be regulated by public authority in the public interest.

But how does the business situation of the railroad manager differ from that of the manufacturer or the merchant?

The merchant may increase his prices when he sees his costs going up, and as a matter of fact all merchants and manufacturers have increased their prices in recent years. The tendency of railroad regulation, however, has been to hold down railroad charges in spite of the steady increase in expenses, with the result that though there has been a very great increase in railroad business in recent years, the railroads themselves and investors in the railroads have found themselves confronted with restricted net earnings.

How much more were the expenses of the railroads in 1919 than they were in 1917?

Expenses increased from $2,850,000,000 in 1917 to $4,695,000,000 in 1919. In other words, though the railroads rendered less

service in 1919 than they did in 1917 the actual cost of rendering that service was approximately $1,800,000,000 more.

Do the railroads favor a reduction in the wages of railroad employees?

No! The railroads are distinctly in favor of all employees receiving the highest wages it is practicable to pay, realizing—as the managers do—the important nature of the service, the risks that are run, and the extraordinary value of having competent men in the service enthusiastically interested in doing efficient work.

VII

What do the railroad managers propose as a way of meeting the railroad problem?

The key to the problem, as they see it, is in the recommendation of the Association of Railway Executives that Congress pass a law directing the Interstate Commerce Commission and all rate-making authorities to provide a system of rates for the railroads of this country which will enable them to pay adequate wages, provide a fair return on the investment and accumulate a surplus to protect railroad service in lean years and thus attract the additional capital necessary to provide the facilities required by the public.

Are the railroads in favor of public regulation of the issuance of railroad securities and for complete accounting of the proceeds of all sales of securities?

Yes; the railroads have embodied a recommendation to that effect in a communication to Congress.

What is the general recommendation of the railroad companies to the people of the United States?

As railroad experience in this and other countries clearly points to the fact that private management secures the greatest economy of operation, the most competition in service and provision of adequate facilities for public requirements, it is our recommendation that—

1. Expenses should not be placed arbitrarily upon railroad properties without making provision to meet them.
2. There should be complete publicity about railroad management and thorough-going regulation in the interests of the people, and,
3. A sufficient margin between expenses and earnings should be allowed to attract the capital necessary to provide the facilities which the public needs.

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